

Message Text

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SUBJ: PROBABLY STILL HIGHER TAXES IN AUGUST

REFS: (A) COPENHAGEN 3094; (B) COPENHAGEN 3486

SUMMARY: THE FOLKETING CLOSING DEBATE JUNE 2, HELD IN THE WAKE OF PESSIMISTIC REPORTS ON THE STATE OF THE ECONOMY, PRODUCED AGREEMENT THAT MEASURES TO IMPROVE THE DANISH ECONOMIC PERFORMANCE MAY BE NEEDED BUT THAT NEITHER A KRONER DEVALUATION NOR A VAT-INCREASE SHOULD BE CONSIDERED. MOST LIKELY, REMEDIES WILL BE SOUGHT, IF NECESSARY, THROUGH MORE TAX INCREASES DESIGNED TO CURB CONSUMER EXPENDITURE AND CURTAIL IMPORTS. THESE WILL PROBABLY BE COUPLED WITH STIMULATIVE ASSISTANCE TO INDUSTRY IN AN ATTEMPT TO REDUCE UNEMPLOYMENT. END SUMMARY.

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1. AS HAS BEEN REPORTED, PRIME MINISTER ANKER JORGENSEN CALLED A SPECIAL SESSION OF THE FOLKETING FOR THE WEEK BEGINNING AUGUST 22 TO DEAL WITH THE ECONOMIC SITUATION. GLOOMY REPORTS ON DANISH ECONOMIC PERFORMANCE BY THE SO-CALLED ECONOMIC WISEMEN AND THE HUDSEN INSTITUTE (SEE REFTELS) HELPED TO MUTE THE OUTCRY FROM THE LEADERS OF RIVAL POLITICAL PARTIES WHICH ORDINARILY WOULD HAVE ACCOMPANIED SUCH AN ANNOUNCEMENT. THIS HAS BEEN INTERPRETED

AS A SIGN THAT THE POLITICAL LEADERS ARE AWARE THAT POLITICAL CO-OPERATION, NOT CONFRONTATION, WILL BE NEEDED TO COPE WITH THE PROBLEMS WHICH MAY CONFRONT PARLIAMENT IN AUGUST.

2. THE LOW-KEY CLOSING DEBATE OF FOLKETING BEFORE THE SUMMER RECESS ON JUNE 2 REFLECTED AGREEMENT AMONG THE POLITICIANS THAT THE SERIOUSNESS OF THE SITUATION CALLS FOR STRONG ACTION TO AVOID "FOREIGN DIRECTION OF THE DANISH ECONOMY," AS SOCIAL DEMOCRATIC SPOKESMAN SVEN AUKEN PHRASED IT. YET MOST PARTY SPOKESMEN, INCLUDING AUKEN, REFUSED TO BE RUSHED INTO WHAT THEY SAW AS A "PANIC REACTION," AND ALMOST ALL GAVE WARNING THAT THEY WOULD NOT CONSIDER A KRONER DEVALUATION A SUITABLE REMEDY.

3. AFTER THE WEEKLY CABINET MEETING JUNE 7, ANKER JORGENSEN ANNOUNCED THAT THE PURPOSE OF THE SPECIAL SESSION WAS MERELY "TO ENSURE THAT THE INCOMES POLICY PACKAGE OF AUGUST LAST YEAR WAS IMPLEMENTED," AND HE SPECIFICALLY CALLED FOR LONG-TERM MEASURES TO DEAL WITH UNEMPLOYMENT. IT APPEARS CLEAR THAT JORGENSEN IS AIMING AT A NEW "AUGUST COMPROMISE" TO INCLUDE ALL IMPORTANT ECONOMIC ISSUES AND MORE OF THE FOLKETING'S PARTIES THAN THE FOUR-PLUS-THE-CONSERVATIVES THAT CONSTITUTED THE AUGUST 1976 AGREEMENT. OVER THE NEXT WEEKS JORGENSEN WILL CONSULT WITH ALL OF THE 11 PARTIES IN THE CHAMBER EXCEPT THE JUSTICE PARTY, THE LEFT SOCIALISTS, COMMUNISTS AND GLISTRUP'S PROGRESSIVES.

4. THE "PROBLEM" OF THE AUGUST 1976 COMPROMISE WAS THAT IT DID NOT COVER A WIDE-ENOUGH ECONOMIC SPECTRUM. THE GOVERNING SOCIAL DEMOCRATS CONSEQUENTLY HAVE HAD TO ATTEMPT TO PIECE TOGETHER SHIFTING MAJORITIES ON A VARIETY OF INDUSTRIAL ISSUES. JORGENSEN

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SAID HE WANTS TO STOP WHAT HE CALLED "THIS ZIGZAGGING."

5. PRESS SPECULATION ON THE MEASURES TO BE ADOPTED AT THE AUGUST 22 SPECIAL SESSION DISCOUNTS A VAT-INCREASE AS IMPROBABLE. INSTEAD, A SERIES OF TRADITIONAL TAX INCREASES IS HELD TO BE THE MORE LIKELY ALTERNATIVE.

6. HIGHER TAXES SHOULD BE "DESIGNED TO REDUCE EXPENSIVE IMPORTS," SAYS THE TRADE UNION FEDERATION (LO)-OWNED DAILY AKTUEL. IN THIS, THE PAPER ECHOES LO PRESIDENT THOMAS NIELSEN, WHO HAS CALLED FOR A SHARP INCREASE IN THE TAXES AND LEVIES ON PRIVATE AUTOMOBILES, ALREADY AMONG THE HIGHEST IN THE WORLD. ALSO A TAX ON "RAW" ENERGY, PROPOSED BUT POSTPONED IN AUGUST 1976, IS SEEN BY THE PRESS AS COMING UP AGAIN FOR SERIOUS CONSIDERATION.

7. THE RADICAL PARTY HAS ALREADY RESPONDED TO THE PRIME MINISTER'S CALL AND PUBLISHED A 30-POINT PLAN OF ITS OWN. THE PARTY BELIEVES IT POSSIBLE, THROUGH A SHORTENING OF THE WORK-WEEK, TO CUT UNEMPLOYMENT BENEFITS, CURRENTLY TOTALLING ABOUT DKR. 8 BILLION

(ABOUT DOLS. 1.3 BILLION) ANNUALLY. THE SAVINGS WOULD BE USED AS PREMIUMS AND LOANS TO INDUSTRY WILLING TO CREATE NEW JOBS. OTHER PARTIES ARE EXPECTED TO FOLLOW WITH THEIR OWN PLANS.

8. IN SUM, IT IS TOO EARLY TO ASSESS THE EFFECTIVENESS OF THE AUGUST 1976 COMPROMISE. IT HAS NOT YET BEEN POSSIBLE TO COMPILE STATISTICS ON WAGE DRIFT SINCE THE CONCLUSION OF THE NATIONAL COLLECTIVE AGREEMENT IN APRIL AND BALANCE OF PAYMENTS PERFORMANCE REMAINS UNCERTAIN. WITH HIGH UNEMPLOYMENT OVER SEVEN PERCENT (APRIL'S FIGURES SHOWED SMALL INCREASES OVER MARCH AND OVER THE SAME MONTH LAST YEAR), MEASURES TO REDUCE PRIVATE CONSUMPTION AND CURTAIL IMPORTS MAY BE DIFFICULT TO FIND. IF ECONOMIC PERFORMANCE IS NOT AS GOOD AS THE SUPPORTERS OF THE AUGUST 1976 COMPROMISE HOPED, LIBERAL LEADER HARTLING, WHO PREDICTED THE INEFFECTIVENESS OF THE MEASURES THEN TAKEN, MAY HAVE GOOD REASON FOR SELF-CONGRATULATION, BUT HE WILL FIND IT DIFFICULT TO USE THIS "SUCCESS" POLITICALLY. THE GOVERNING SOCIAL DEMOCRATS HAVE THEMSELVES TAKEN THE PRECAU- LIMITED OFFICIAL USE

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TIONARY MOVE OF CALLING THE SPECIAL PARLIAMENTARY SESSION IN AUGUST. FORTUNATELY, THE LEADERS OF THE CENTER PARTIES SEEM TO BE AWARE THAT IN SUCH A CASE PARLIAMENTARY COOPERATION OFFERS THE ONLY HOPE FOR ADOPTION OF EVEN MORE SEVERE ECONOMIC MEASURES. LUKENS

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